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Summary of Organization, Programs,
and Problems

The Office of the Economic Coordinator was established under a joint directive of the Secretaries of State, Treasury, and Defense and the Director of the Foreign Operations Administration which was approved by the President on August 7, 1953.

Under the terms of the 1953 Directive, overall responsibility for the development and coordination of U.S. military and economic aid activities in Korea was assigned to the Commander-in-Chief, United Nations Command (CINCUNC). An Economic Coordinator was designated as the principal economic advisor on the staff of CINCUNC, and certain economic and financial responsibilities were delegated to the Economic Coordinator. In addition, the Economic Coordinator was to represent the Foreign Operations Administration (FOA) in Korea and was to be provided with a staff by the FOA.

The Economic Coordinator serves as the representative of CINCUNC on the joint Republic of Korea-United Nations Command Combined Economic Board. The Combined Economic Board, established under the US/ROK Economic Coordination Agreement of May 24, 1952, acts as the agency for the development, implementation, and coordination of all aspects of civil assistance and economic aid programs in Korea. In addition, the Board makes recommendations on general economic and financial policies in Korea, and ways and means of developing the most efficient use of Korea's own resources.

By delegation of CINCUNC and by his membership on the Combined Economic Board, the Economic Coordinator exercises general coordination over the programs of the United Nations Korean Reconstruction Agency (UNKRA). In the absence of additional contributions from member nations, the activities of the UNKRA are now limited to the completion of previously initiated projects. In December 1955, the Office of the Economic Coordinator assumed the responsibility for initiation of new projects in all sectors of the economy.

The Office of the Economic Coordinator (OEC) is presently staffed by a total of approximately 263 U.S. and U.N. personnel. Included in this total are approximately 41 officers and enlisted men furnished on a reimbursable basis by the U.S. Army, and 42 U.N. personnel made available by UNKRA. A total of approximately 786 Korean nationals are presently in the employ of OEC.

The objectives set for the expanded assistance program initiated by OEC in 1953 include: The support of Korean military forces; the achievement and maintenance of a standard of living approximately equivalent to that which prevailed in Korea prior to the outbreak of hostilities in 1950; the accomplishment of such reconstruction and development as might be possible within the limits of available resources and as might be consistent with the maintenance of financial stability.

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Funding for the program administered by CEC is made available by the International Cooperation Administration out of Mutual Security Appropriations. The following is a summary of funds made available during the first three years of the program (in millions of dollars):

Fiscal year 1954	200.0
Fiscal year 1955	261.9
Fiscal year 1956	<u>327.0</u>
Total	788.9

United States contributions to UNKRA are not included in the above totals. The totals include, however, contributions to the Armed Forces Assistance for Korea program (\$5 million in fiscal year 1955, and \$2 million in fiscal year 1956) and reflect allotments for both Defense Support and Technical Cooperation.

Approximately two-thirds of the funds available in fiscal year 1956 were devoted to the importation of raw materials and other commodities for Korean industry and Agriculture. Included in this program were \$60 million for the purchase of fertilizers, \$30 million for raw cotton, and approximately \$20 million for petroleum products. A total of \$50.7 million of this program represented sales of surplus agricultural commodities for Korean hwan under Section 402 of the Mutual Security Act.

The Korean hwan generated by the sale of surplus agricultural commodities is used exclusively to support the local currency expenses of the Korean military establishment. A substantial portion of the hwan proceeds from the sale of other raw materials and commodities is also used directly for military purposes. Approximately 50 per cent of the total local currency sales proceeds utilized during fiscal year 1956 was devoted to support of ROK military forces; the remaining 50 per cent was used for capital investment purposes.

Approximately one-third of the dollar program funds available during fiscal year 1956 were devoted to capital investment and other projects. Sectors of economic activity represented in approved projects included agriculture, mining, manufacturing, electric power, highway, marine, and railroad transportation, communications, education, public works, and community development. A sum of \$20 million was allocated out of fiscal year 1956 program funds for the construction of a second plant to produce fertilizer. A program to dieselize a portion of the Korean National Railways was also initiated during fiscal year 1956. These and similar projects will, upon completion, result in significant reductions in the foreign exchange cost of imports needed by the Korean economy. A total of \$5 million was allocated for Technical Cooperation projects which will provide training for approximately 230 Koreans and contribute to the development of technical skills in the economy.

The completion of capital investment projects included in previous programs has contributed to a general increase in production since the close of hostilities.

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Agricultural production in 1955 exceeded that in 1949 by about 8 per cent. Domestic coal output rose by approximately 25 per cent during this period. About one-third more electric power was generated in 1955 than in 1949, despite the fact that in the late summer of 1955 the U.S. Army withdrew the last of the power barges which had supplied power to the economy. In the field of manufacturing, substantial gains were recorded in several areas, and notably in the textile industry. South Korean output of cotton cloth in 1955 was roughly double the output during 1949. The Gross National Product of Korea is estimated at \$1.8 billion ~~in 1955~~ in 1955 and \$1.6 billion in 1949. On a per capita basis, it is estimated that GNP rose from \$78 in 1949 to \$84 in 1955.

Further gains in output are expected for 1956. A new thermal power plant of 25,000 KW capacity, financed by the fiscal year 1954 program, is now in full production. Two additional thermal stations, with a total of 75,000 KW capacity, are now in test phase and are to go on stream shortly. A number of small manufacturing facilities have recently been completed or are nearing completion. For example, a plant producing truck tires -- the first of its kind in Korea -- entered production during the past month.

A major problem hampering South Korean recovery has been severe inflation. The volume of money supply has increased by 200 times since 1947 and the price level has shown an equal increase.

Inflation since the end of the war has been the result primarily of large deficits in the Government's budget, reflecting the burden of maintaining a large military establishment. The ROK defense budget in the fiscal year 1956 was the equivalent of 50 per cent of total expenditures and approximately 70 per cent of total revenues of the Government.

Inflation has also, to a large extent, been the result of uneconomical pricing of the goods and services sold by public utilities, and Government owned and operated enterprises. The large deficits resulting from operations of the railroads, the communications network, electric power generation, and Government coal mining have required substantial expenditure by the Government either in the form of direct subsidies or in form of guaranteed bank loans.

Some improvement in the inflationary trend has been evident during the past year. The level of wholesale prices rose by only 44 per cent in fiscal year 1956, as compared to an increase of 106 per cent in the preceding year. Retail prices, which rose by 112 per cent in fiscal year 1955, recorded an increase of only about 19 per cent in fiscal year 1956.

During the past year, the ROK has made substantial efforts to reduce its budget deficit and to improve its fiscal and credit policies. A continuation of these efforts should make possible the achievement of a substantial degree of financial stability during the next year or two and further progress toward economic recovery.